

FINANCIAL INCLUSION AND MSME SECTOR

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ABSTRACT

MSME (Micro, Small and Medium Enterprise) sector has emerged as a very vibrant and dynamic sector of the Indian economy. Over the last few decades it not only play significant role in providing employment at low cost of capital but also towards economic growth, balanced regional development and poverty reduction. Even after sixty years of independence majority of population still remained unbanked which lead to exclusion of population from banking sector and other financial services. This lead to financial instability. As a measure the RBI and the ministry of MSME began to emphasize the idea of financial inclusion. Financial inclusion is the process of ensuring access to financial services and adequate timely credit by low income groups and weaker sections at an affordable cost.

This study analyses the role of banking sector in bringing financial inclusion in MSME sector. For this, data are collected from the secondary sources. We can understand the various measures taken by the RBI to promote the MSME sector. There was a high extend of financial exclusion in this sector. Being the primary lender, banks play a big role in bringing the excluded units within the fold formal banking.

KEYWORDS: MSME (Micro, Small and Medium Enterprise), RBI,

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INTRODUCTION

Financial inclusion is the delivery of financial services at affordable cost to vast section of the disadvantaged and low income group. Or it broadly means universal access to a wide range of financial services at affordable cost .These include not only banking products but also other financial services such as insurance and equity products. The policy makers have been focusing on financial inclusion of rural and semi urban areas primarily for three needs:

- Creating a platform for inculcating a habit to save money.
- Providing formal credit avenues
- Plugging gap and leaks in pubic subsidies and welfare program .Now we shall discuss the financial inclusion and MSME sector.

MSME sector (Micro, Small and Medium enterprises) is the strong pillar of Indian economy and they are the engine of growth. MSME also known as Town and Village Enterprise. They are mainly skill oriented. Now there are 26 millions micro medium enterprises unit in our country. It is the second largest provider of employment. Around 16 million people are employed in this sector. It contributes 45% to manufacturing output and 40% to nations export.

Its contributions to Gross Domestic Product(GDP) is also noticeable i.e. 7.04 %(2012-2013) so we can see the significance contribution of MSME sector in economic growth, employment generation, balanced regional development overall poverty reduction and socioeconomic development etc.

OBJECTIVE OF THE STUDY

- To analyze the measure taken by the banking sector to promote MSME sector.
- To understand the contributions of MSME sector towards the economy.

Data and Methodology

The data required for the study has been collected from secondary sources. The data collection includes

- Annual reports of Ministry of MSME and Government of India
- Various Websites, Articles and journals connected with relevant topics of MSME.

Contents

In accordance with Micro, Small Medium enterprise development act(MSMED)act 2006,MSME are classified into:

- Manufacturing/production of goods
- Providing/rendering of services.

Manufacturing Enterprises have been Defined in Terms of Investment in Plant and Machinery (Excluding Land and Building) and Further Classified into:

- Micro enterprises- investment up toRs25 lakhs
- Small enterprises-investment about Rs 25 Lakh and up to Rs 5 crore.
- Medium enterprises' investment above 5 cores and up to Rs10 crore

The Service Enterprises have been Defined in Terms of their Investment in Equipment (Excluding Land and Building) and Further Classified into:

- Micro enterprises-investment up to 10 lakh.
- Small enterprises investment above 10 lakh and up toRs 2 crore.
- Medium enterp4izes –investment above Rs 2 crore and up to Rs 5crore.

Table 1

Manufacturing Sector	
Enterprises	Investment in Plant & Machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in Equipments
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five core rupees

When a small enterprise is concerned, the major source of finance is from banking sector but they face many problems in acquiring finance from many banks because of their inability to pledge adequate collaterals. Many of the people in the rural areas are not able to enjoy the banking and other financial services. This emphasizes the importance of financial inclusions i.e. banking unbanked. Even though there are evidences that MSME sector contribute prominently towards the Indian economy, it faces many problems like

- Lack of infrastructural input and banking support.
- Low rate of investments
- Lack of suitable technology
- Inefficient marketing strategies

All these problems arise because of lack of capital. For that the RBI has taken the measure to ensure sufficient credit availability to MSME sector. All the domestic commercial bank should lend 40% of their Adjusted Net Bank Credit (ANBC) to MSME sector. We know the bank loans to MSME are eligible to be classified under priority sector advances. It provides finances, which can be classified as

- Direct finance
- Indirect finance.

Direct finance are given to manufacturing enterprises, food and agro processing units, service enterprises, export credit, Khadi and Village Industries sector on the other hand indirect finance are given to financial institutions (which will in turn reach MSME sectors) and to the persons involved in the decentralized sector i.e. supply and marketing of outputs of artisans, village and cottage industries.

In order to ensure that correct credit is available to micro enterprises within the MSME sector, bank should ensure that 40% of the total advances to MSME sector should go to micro (manufacturing) enterprise where the investment is up to Rs 10 lakh and to micro (service) enterprises where investment is Rs 4 lakh and 20% of total advances to MSME (manufacturing) sector where investment is Rs 10 lakh to Rs 25 lakh and to micro (service) sector where investment is Rs 4 lakh to Rs 10 lakh. Therefore a total of 60% of the MSME advances will go to the micro enterprise. Banks are mandated not to accept collateral security (in case of loans up to Rs 10 lakh) from the units of MSME sector. But on the basis of good track

record and financial position, extend of credit limit of loan may be up to 25 lakh.

Some of the banking sector support are as follows:

- **Scheme of Small Entrepreneurs Financial Centers**
 - The scheme has been introduced in consultation with ministry of finance, Government of India, SIDBI, banking division, Ministry of SSI. It enabled to expand outreach of banks and also for improving credit flow to this sector.
- **Composite Loan**
 - A loan limit of 1 crore to be sanctioned to avail working capital and term loan requirement.
- **Structured MSME Branches**
 - Public sector banks have been advised to open at least one specialized branch in each district. This will enable the entrepreneurs to have easy access to bank credit to MSME sector.
- **Structured Mechanism for Monitoring Credit Growth to MSME Sector**
 - Indian Banks Association led a subcommittee to monitor the credit related issues to this sector.
- **A state Level Inter Institutional Committee (SLIIC)**
 - SLIIC have been setup in all states. It closely monitors timely sanction of working capital to units which have been provided by SFC.
- **Empowered Committee on MSME**
 - This committee will meet periodically and review the program in MSME financing and rehabilitation of MSME units. It also co ordinates the banks and financial institutions and state government of India in removing bottlenecks and ensures smooth flow of credit to this sector.
- **Credit Linked Capital Subsidy Scheme**
 - This scheme has been made more attractive by raising the ceiling on loans from 40 lakhs to 1 crore and by raising rate of subsidy from 12% to 15%.
- **CGTMSE(Credit Guarantee Fund Trust For Small Medium Enterprises)**
 - Credit Guarantee Fund Trust for Micro and Small Enterprises” was introduced by Government of India in consultation with SIDBI to make available collateral free credit to the Micro and Small Enterprise sector.

Apart from these services bank also gives

- Business advisory services
- Short term insurance
- Invoice discounting
- Capacity building through SME seminar

- Matching local SME with foreign supply
- Financial planning and management services

Public sector banks are advised to double the follow of credit to MSME sector .Because of their support MSMEs have become one of the vibrant and dynamic sector in the Indian economy Lets have a look in to its contributions to Employment and Gross Domestic Product(GDP).



Figure 1



Figure 2

CONCLUSIONS

MSME sector provides dedicated SME department or units to provide customaries financial service. From the annual reports we can see SME accessing loans from banking has increased (60%) and Loan disbursement also has increased. Credit flow has reached Rs.15387crore and Contribution to GDP is 7.04%(2013). Contribution to Total export is also commendable i.e. 42.38%(2013) and towards Employment is 1061.52lakhs(2013).So we can conclude that the MSME sector has performed well and it is able to resolve many of the problems facing by MSME which leads to reduced rate of financial exclusion in this vibrant sector.

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